

SECTION 2

CHAPTER 6

REPORTING ON INTERNAL CONTROL

The Secretary of the Interior reports on the effectiveness of internal controls over financial reporting. This involves two steps:

- Arriving at the overall conclusion
- Preparing management's assurance statement

ARRIVING AT THE OVERALL CONCLUSION

Management's conclusion as to the operating effectiveness of internal controls is based on the results of the assessment performed at the Departmentwide level and of assessments made at the component, process, transaction, application, and other subordinate levels. Bureau heads will provide assurance to the Secretary by signing the statement of assurance and submitting it through the bureau's assistant secretary. Refer to Exhibit 4 for a sample assurance letter.

Management should state its conclusion in one of the following ways:

- Unqualified statement of assurance (no material weaknesses to report)
- Qualified statement of assurance (one or more noted material weaknesses)
- Statement of no assurance (pervasive material weaknesses or no processes in place)

PREPARING MANAGEMENT'S ASSURANCE STATEMENT

The final step in reporting is for management to prepare an assurance statement on internal controls over financial reporting to be included in the PAR. Refer to Exhibit 5A, 5B, and 5C for sample assurance letters. The purpose of the statement is to report the results of management's assessment of the effectiveness of internal controls over financial reporting as of June 30 of that fiscal year. The assurance statement must include the following:

- A statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting for the Department
- A statement identifying OMB Circular A-123, *Management's Responsibility for Internal Control*, as the framework used by management to conduct the assessment
- An assessment of the effectiveness of the Department's internal controls over financial reporting as of June 30, including an explicit conclusion as to whether internal controls over financial reporting are effective

Include additional information in the assurance statement if one of the following has happened:

- If a material weakness is discovered by June 30, but corrected by September 30, revise the assurance statement reported in the PAR to identify the material weakness, state the corrective action taken, and indicate that it has been resolved. This resolution may be reported only if the control is in place for an adequate amount of time to be properly tested as in the testing plan.
- If a material weakness is discovered after June 30, but prior to September 30; the assurance statement should be updated to include the subsequently identified material weakness.

The assurance statement should be accompanied by a summary of the CAPs for the material weaknesses and system “non-conformances.” The summaries should include a description of the material weaknesses, the status of corrective actions, and the timelines for completion. CAPs need not be reported for reportable conditions not included in the FMFIA report.